A STUDY OF THE ROLE OF MSME-DI IN THE DEVELOPMENT OF MSMEs IN KERALA

Introduction

'Mother India' is rich in land and population, but she is facing acute problems of unemployment and scarcity of capital. The most suitable remedy for the economic underdevelopment of a country like India is the promotion of the Small Scale Industries. The mastermind behind this idea is none other than the father of our nation, Mahatma Gandhi. Of late the horizon of the Small Scale Industry has been very considerably widened and the very name has been changed to the Micro, Small and Medium Enterprises (MSMEs). The definition of the MSMEs differs considerably from country to country. The way they are defined depends on the stage of the economic development and the broad policy set for which the definition is used. "There are said to be more than 60 definitions of Small and Medium Enterprises used in 75 countries surveyed"[1].

The most commonly used definitions relate to either the size of employment and or the quantum of capital investment on fixed assets. In the European Union, small and medium enterprises are defined as enterprises with less than 500 employees. In Japan, a small scale industry is one in which the investment shall not exceed 100 million, the number of employees should be less than 300. The Indian scholars define the term in a very specific sense. They do it taking into special account the amount of money the industrialists invest in plant, machinery and other fixed assets. It seeks to keep in view the socio economic environment in India, where capital is scarce and labour is abundant.

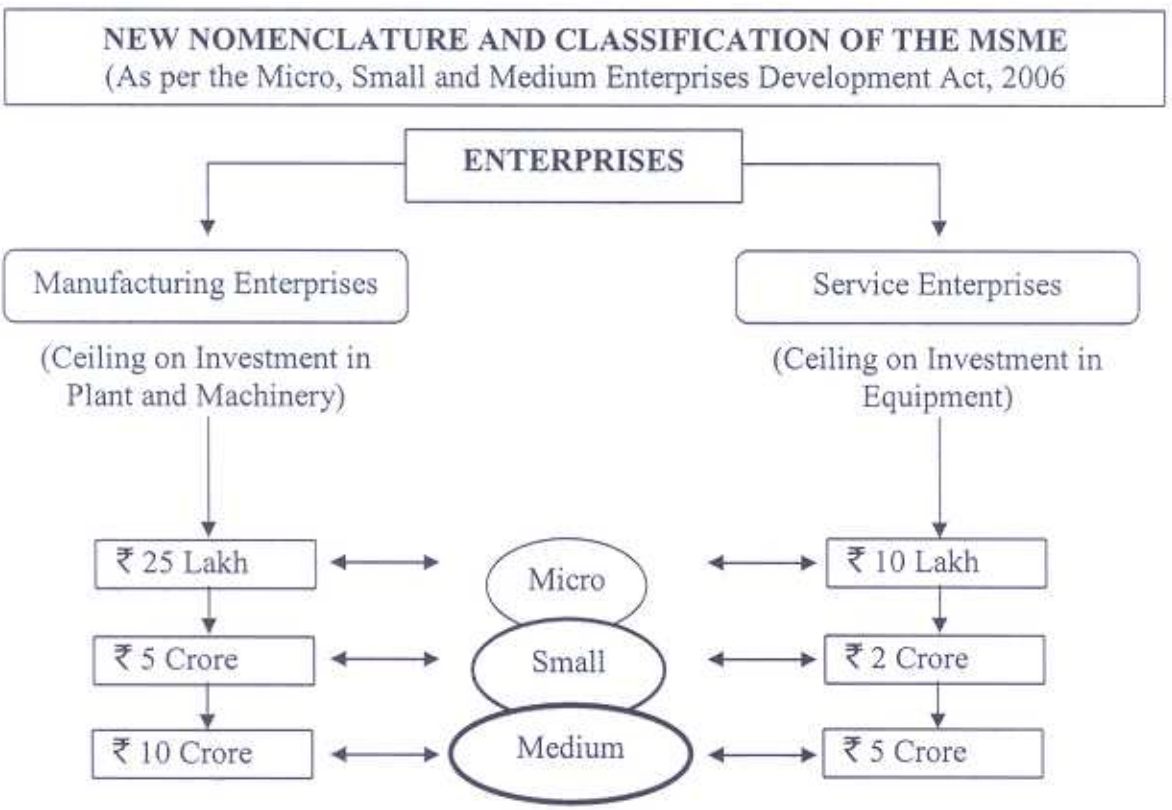
Micro, Small and Medium Enterprises in India

Enterprises engaged in the manufacture or production of goods pertaining to the 'small scale' industry may be divided into:

- Micro Enterprises – here the investments in fixed assets in plant and machinery do not exceed ₹ 25 lakhs.
- Small Enterprises – in which the investment in fixed assets in plant and machinery is more than ₹ 25 lakhs but less than ₹ 5 crore.
- Medium Enterprises - in which the investment in plant and machinery is more than ₹ 5 crore but does not exceed ₹ 10 crore.

Enterprises engaged in providing or rendering services may be grouped as:

- Micro Enterprises – in which the investment in fixed assets in plant and machinery does not exceed ₹ 10 lakhs
- Small Enterprises - in which the investment in fixed assets in plant and machinery is more than ₹ 10 lakhs but does not exceed ₹ 2 crore.
- Medium Enterprises – in which the investment in fixed assets in plant and machinery is more than ₹ 2 crore, but does not exceed ₹ 5 crore.



Ever since its inception, the MSME sector has been facing difficulties in obtaining finance and in finding favourable markets. One of the main bottlenecks is the inaccessibility of the working capital. The loans from the banks are few and far between. There are other hindrances like the inability to raise capital from other sources, the onslaught from large companies, the difficult bureaucratic procedures of registration and the lease of managerial skills. The increasing availability of cheap foreign imports has further hampered the development of the Indian Micro, Small and Medium enterprises. These obstacles have compelled the Government of India to intervene and ensure the continued growth and success of the MSMEs.

In the post Independence era, the Government of India has realized and revealed the importance of the small scale industries. It has been taking every possible step to uplift the small enterprises by providing financial and non-financial support. The industrial promotion activities of the Government of India were officially started right from 1947, the year of independence, especially with the Industrial Policy Resolution of 1948.

In the Resolution dated 6th April 1948, the Government propounded the policy to be pursued in the industrial field. The Resolution emphasizes the importance to the economy of securing a continuous increase in production and its equitable distribution. It has also pointed out that the state must play an active role in the development of our industries.

In paragraph 8 of the Industrial Policy Resolution No. 1 (3)-44 (13)/48 dated 6th April 1948, it is clearly stated that "the cottage and small scale industries have a very important role in the national economy"[2].

After eight years of the induction of the Industrial Policy Resolution 1948, the Government passed another resolution on 30th April 1956, in which 128 items have been reserved exclusively for the Small Scale Industrial Production. The goal was to make the small scale industrial sector self – sufficient. It also reserved 166 items for exclusive purchase by the Government from the small scale sector. Again the Industrial Policy statement dated 23rd December 1977, enhanced the reservation items to 504 from 128 and District Industries Centres (DICs) were established for the development of small and cottage industries.

In 1980, the Central Government declared another Industrial Policy Resolution. This resolution continued the items of reservation, strengthened and increased the financial support to the small scale sector. The Industrial Policy 1990 and 1991 have also taken challenging steps for the upliftment of the small scale industries.

The Micro, Small and Medium Enterprises Development Act (MSME-DA) 2006 is the latest of the initiatives taken by the Central Government for promoting the development of the small scale industry sector. The Government passed an Act regarding the Micro, Small and Medium Enterprises in June 2006. The Act was the product of a consultative process involving over 300 industry associations, a few government bodies and some multiple stakeholders in the vast subcontinent. "The Act, which came into force w.e.f. 02-10-2006, confers not only certain privileges upon the MSMEs but also casts certain obligations on the persons buying products and services from such enterprises"[3].

Thus, it must be clear that in the post independence era the Government of India has been taking every possible step to uplift the small scale industries. The Government has fully realized and stressed that the "Small is not only beautiful but also vital". Most countries in the world, both developed and developing, are seen to evolve a set of policy measures and incentives to provide special support to encourage the industrial sector. However, India is unique in the policies it has framed to protect and support the small industrial sector. The concern and support for small scale units have focused greatly on small scale industry.

In order to accelerate the development of the small industries, the India Government have set up a number of agencies. Among these agencies, the Small Industries Service Institutes (SISIs), having a wide spectrum of promotional activities, are unique in the field. The SISIs, as hinted earlier, later rechristened as **the Micro, Small and Medium Enterprises – Development Institutes (MSME-DIs)** were set up in 1955.

Statement of the Problem

It is noteworthy that "in the post independence era the Government of India took every measure to uplift the small scale industries to cope up with the new phase of the economy by providing financial and technical support"[4].

The Government has ensured the protection of the Industry by internal and external control – measures. This salutary step has helped the growth and the speedy development of the establishment of a number of industrial promotion agencies. It was one of the significant attempts made by the Government. Certainly the industrial promotion agencies in India have played a pivotal role in the industrial development of the country. One among such agencies is the MSME-DIs.

The Indian President under notification dated 9th May 2007 has amended the Government of India (Allocation of Business) Rules 1961. Pursuant of this amendment, the Ministry of the Agro and Rural industries and the Ministry of Small Scale Industries have been merged into a single ministry, namely the Ministry of the Micro, Small and Medium Enterprises.

At the apex, there is the Development Commissioner (MSME) who has under him, a network of 30 MSME-DIs and 28 branch MSME-DIs. The MSME-DI Kerala was started in the year 1956. The jurisdiction of the Institute extends over all the districts of Kerala and the Union Territory of Lakshadweep. It has a wide range of technological, managerial and consultancy services. It judiciously attends to the revival of small scale sick units. Their activities are extended through their extension centres at Alappuzha, Shornur, Kozhikode and the central workshop situated at the headquarters, Thrissur. The nucleus cell of the Institute is functioning at Cochin for the promotion and development of the small scale units in the Lakshadweep Islands.

Whatever be the promotional activities undertaken, they have no significance unless the fruits of the activities reach the target groups ie. the MSMEs. The study proposes to assess the role of the MSME-DI in the development of the MSMEs in Kerala.

Significance of the Study

Incentives and encouragements given by the Central Government have effected a substantial boost in the Small Scale Industries during the last six decades. But these developments have not been commensurate with the potentialities or with the need for them. Besides, whatever progress has been made, is not without serious weaknesses and drawbacks. The available literature shows that, though various studies have been made about the performance of the industrial promotion agencies of the Central Government, not even a single

study has been made about the central support through the MSME-DIs, a unique institution in the industrial field.

The study is significant as it would reveal how efficiently and effectively the MSME-DI works for the industrial growth of Kerala. It is expected that the study would throw more light on the areas of the working of the MSME-DI where special attention is needed. Further, it will enable the government agencies to take effective steps for the improvement of their service products.

Research objectives

The main objective of the study is to analyse the role of the MSME-DI in the promotion of the MSMEs in Kerala. However, it will incorporate the following specific objectives as well.

1. To evaluate the effectiveness of the training programmes of the Institute
2. To analyse the effectiveness of the workshop facilities provided by the Institute
3. To examine the effectiveness of the consultancy services rendered by the Institute
4. To illustrate the effectiveness of the development and support services of the Institute
5. To identify the various problems faced by the MSM Entrepreneurs and steps taken to solve the problems
6. To examine the role of the other agencies in the development of the MSMEs in Kerala
7. To assess the performance of the MSM Entrepreneurs in the various aspects of entrepreneurship and to make suggestions on the basis of the study.

Hypotheses

Based on the objectives of the study, the following major hypotheses are formulated and tested.

H_1. The training programmes conducted by the MSME-DI are effective for the development of the MSMEs in Kerala.

H_2. The workshop facilities offered by the Institute are effective from the practical side of entrepreneurship.

H_3. The consultancy services offered by the Institute are very effective.

H_4. The majority of the entrepreneurs are satisfied with the development and support services of the Institute.

H_5. The majority of the entrepreneurs face financial, labour and production problems.

H_6. The Government agencies other than the MSME-DI have a significant role in the development of the MSMEs in Kerala.

Database and Methodology

On the basis of the objectives and hypotheses the following methodology was adopted to conduct the present study.

Phase 1: Search for available literature

An earnest attempt has been made to collect relevant literature from varied sources. In this section, efforts are made to consolidate the available literature on the subject. Here the theoretical as well as the empirical aspects are reviewed. The aim of such a review is to have a birds eye view of the concurrent and corresponding issues and problems connected with the present study. Though there are a large number of industrial promotion agencies functioning at the state level and at the national level, the agencies which provide technical counselling and guidance are few and far between. Hence the study of these non financial agencies has its limitations. Even then, every effort has been made to gather all the available literature from different sources – journals, books, websites, theses and other publications.

Phase 2: Secondary Data Collection

The relevant secondary data for the study were collected from the annual reports and the other published documents of the Ministry of the MSMEs, the MSME-DIs, District Industries Centres (DICs), Directorate of Industries and Commerce and the State Planning Board. Besides these published research papers, periodicals, journals, research articles, newspapers, departmental publications, brochures and booklets were also used for the secondary data. The details of the performance of the MSME-DI from 2000-2001 to 2009-2010 are collected from the annual reports of the MSME-DI, Kerala.

Phase 3: Primary Data Collection

In order to study the role of the MSME-DI in the development of the MSMEs in Kerala, a survey was made.

a. **Sampling Design**

All the working MSMEs which are registered as MSMEs upto 31-03-2010 were considered as population for the purpose of the study. Two stage stratified random sampling technique is adopted to select the sample units. For the selection of the MSM entrepreneurs, 4 districts were selected. The study was particularly centred round 2 taluks from each district. 160 entrepreneurs were interviewed. At the interview, it was evidenced that only 120 of them came under the full definition of the Micro, Small and Medium enterprises.

b. A structured questionnaire was designed to collect data for the study. The questionnaire consists of both open-ended and close ended questions. The open-ended questions are used to collect the opinion and suggestions of the respondents. The questionnaire was prepared both in English and in the vernacular, so as to cater to the needs of all types of entrepreneurs and trainees.

One questionnaire was set exclusively for the Government officials to analyse their perception as to the performance of the entrepreneurs. Informal personal discussions with the entrepreneurs, the officials of the MSME-DI, DIC and various industrial promotion agencies were also conducted for the research. 200 trainees 50 each from the selected four districts, were served the questionnaires.

In addition 25 officers of the various promotion agencies were interviewed. It was really a rewarding experience. Their opinions and views have clearly thrown light up on our studies and on the conclusions arrived at.

Processing and Analysis of the data

The data collected were analysed with the help of the computer software package, SPSS. Statistical tools like averages, standard deviation, mean score and chi-square tests were applied. One of the most powerful multivariate techniques, factor analysis, has also been applied for the assessment of the

performance of the entrepreneurs. Along with these, time graphs, charts and segmental representations have been used for analytical purpose.

Major Findings of the Study

- The Micro, Small and Medium Enterprises Development Act (MSME-D Act) is the latest of the initiatives taken by the Government for promoting the development of the MSME sector.
- The MSME sector comprises 50 percent of India's total manufactured exports, 80 percent of her Industrial employment and 95 percent of all the industrial units in the country.
- The major problems confronting the sector have been identified as; technology obsolescence, managerial inadequacies, delayed payments, poor quality, incidence of sickness, lack of appropriate infrastructure and lack of a profitable marketing network. Inadequate access to credit is a very major problem facing the MSMEs in Kerala. Generally such enterprises operate on tight budgets, often financed through the owners own contribution, loans from friends and relatives and from bank credit.
- The majority of the MSMEs use old techniques of production and outdated machinery and equipment.
- The small scale units face several setbacks in marketing and the distribution of their products. Most of them do not have any marketing network at all, much less their own.
- The MSMEs cannot afford to spend much on advertising, sales promotion and research. They also face stiff competition from the large firms.
- The commercial banks do play a very important role in providing financial assistance to the small scale industries, both existing and new. The small scale sector gained any attention from the commercial banks only after their nationalization.
- The study further reveals that the private money lenders and co-operative banks give considerable amounts as credit to the small scale industries.
- But unfortunately many of the MSM entrepreneurs are unaware of the various lending schemes launched by the financial institutions in Kerala. With regard to the schemes of the micro entrepreneurs for the developments of the small scale sector, the micro entrepreneurs are least

aware of the schemes of the commercial banks. When the scale of operation increases the awareness about the schemes also increases.

- Most of the entrepreneurs (i.e. say 94.2 percent) admit that they approach agencies other than the MSME-DI only for financial assistance.
- Among the industrial promotion agencies in Kerala the MSME-DI plays a vital role in the development of the MSMEs in Kerala. It adopts steps and measures to popularize entrepreneurship and to motivate the entrepreneurs to adopt desirable steps in their career.
- The trainees and the entrepreneurs are satisfied with the training programmes of the Institute. Many and varied are the services it renders such as training, workshop facilities, consultancy services and development and support services. Most of the entrepreneurs, irrespective of their scale of operation, approach the Institute for training.
- Even though, the same type of training is given to the entrepreneurs of different districts, there is a significant difference in the satisfaction level of the trainees from the different districts. About 75 percent of the entrepreneurs of the district of Thrissur have either high or very high level of satisfaction in the training programmes organized by the Institute.
- Entrepreneurs are satisfied with the workshop facilities provided by the Institute, irrespective of their scale of operation. Most of the entrepreneurs have high or very high degree of satisfaction from the workshop facilities offered by the Institute.
- The majority of the entrepreneurs are satisfied with the development and support services provided by the MSME-DI.
- Most of the MSM entrepreneurs face (93.3 percent) problems of labour, production, finance and marketing. The problems faced by them are more or less identical.
- The MSME-DI aided units benefit from the promotional activities conducted by the former. The majority of the entrepreneurs have introduced modernisation and mechanization in their units with the help of the Institute.
- A very good number of the entrepreneurs face labour problems and they do not take any effective steps to solve them. The study also reveals that

78 percent of the entrepreneurs do not adopt any system to solve the problems of production.

- Most of the entrepreneurs find it difficult to adopt a convenient system of marketing. This is because of the heavy investment required for the same.
- A sizable majority does face the problem of high cost of capital and the non availability of credit. Of course, there is a small minority who have some inadequate banking facilities.

Recommendations

Based on the findings, certain concrete suggestions are put forward for the active consideration of all the industrial promotion agencies and the Government. They are:

- The government should take effective steps so as to ensure that the MSME promotion schemes reach the targetted group.
- Commercial banks and the other financial agencies should implement liberal financial schemes for the MSMEs in Kerala. They must see to it that convenient and liberal lending schemes are provided and legal formalities for getting the loans are reduced to the minimum.
- The investment climate prevailing in the state is found to be obstructive to the proper growth of the micro, small and medium enterprises. A good industrial atmosphere must be created in the state so as to attract more industrialists from the other states and from abroad to our State.
- The Government should take effective steps to provide skilled labour to all the MSME units in Kerala.
- The MSME-DI should emphasize the practical side of entrepreneurship.
- Another drawback detected is that the training programmes the Institute conducts are more or less of a routine type. They should take effective steps to make their training programmes more attractive and fruitful.
- There is no follow up systems for the trainees, after their training. There should be proper follow ups to make the training programmes more effective and thereby help the rapid industrialization of the State.
- The attitude and behaviour of some of the officers of the industrial promotion agencies are not upto the mark. There are a good many who

are not at all co-operative. Effective steps must be taken by those concerned to impart proper orientation and motivation to such officers.

- Some of the trainees attend the training programmes without any specific objective. It does affect the effectiveness of the training programmes.
- Lack of experienced field staff and the inadequacy of finance are the main problems the industrial promotion agencies face today. It would be pretty commendable if the Government give due consideration in this regard.

Chapterisation

The thesis is organized in seven chapters.

I Introduction

II Micro Small and Medium Enterprises – Conceptual Issues

III MSMEs – Incentive Schemes, New Initiatives, Institutional and Legal Framework

IV Industrial Promotion Agencies in Kerala – An Overview

V Micro, Small and Medium Enterprises - Development Institute, Kerala

VI The Role and Involvement of the MSME-DI in the development of MSMEs in Kerala – An Analysis

VII Findings Recommendations and Conclusion

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